

Shorthand record of speech by Elena Burmistrova, Deputy Chairman of Gazprom Management Committee, Director General of Gazprom Export, at Gazprom's Investor Day

Good afternoon, dear colleagues.

In my part of the presentation, I will talk about Gazprom's position in the international markets. I am going to comment on supplies of pipeline gas and LNG, as well as market forecasts, and our prospects in these areas.

In 2020, all of the world's oil and gas companies faced a very unfavorable market environment. Spot prices in the global gas markets suffered a record decline, hitting historical minimums both in the spring and in the summer. This "perfect storm" was brought on by a combination of several negative factors at once: mild weather, coronavirus-related restrictions, and the global economic crisis. All this unfolded amid excessive supply of gas in the market.

It should be noted that the likelihood of last year's market situation remaining the same is pretty much zero. These price levels cannot be sustainable in the medium and long term. They do not even cover the marginal costs of most gas producers. On top of that, market fundamentals are getting back to normal.

In these conditions, Gazprom's positions in the external markets inspire optimism. Our Company performed admirably in the unpredictable year of 2020 and retained its market share. We are systematically diversifying our supply routes and securing our foothold in the new markets.

Gazprom is ramping up its supplies via new gas pipelines and developing additional trading mechanisms, thus making the entire market more flexible. We are successfully meeting increased demand in extremely cold winter months. In particular, our positions in the European gas market are now much stronger than a year ago.

After a major slump in the first half of 2020, we saw some volatile growth of gas prices in Europe and the world at large. This was caused by, among other things, the fast recovery of energy demand in Asia and the reduced supply of LNG. Thanks to the availability of our gas, our contractual supplies to consumers demonstrated confident growth in the second half of the year. Meanwhile, the volumes of LNG imports to Europe remained low.

By the start of 2021, Europe's gas market regained its balance, while Gazprom managed to retain its leading position and demonstrated its competitive advantages: low production cost, flexible and reliable supplies, and well-developed infrastructure and contract portfolio. Moreover, we showed that we were ready for continued competition with new suppliers. At the same time, Gazprom acted as a reliable and flexible supplier for European consumers, making the market more balanced and stable.

One must also remember the cold winter of 2020–2021, which created the threat of blackouts in some countries. That winter reinforced the key role of pipeline gas in ensuring the reliability of energy supplies in Europe.

In 2021, the pricing environment in Europe is going to be more predictable than a year before. Let us remember that in early 2020 the European gas market was operating in a mild winter, the inventories in underground gas storages were high, and there were concerns about risks related to Ukrainian transit. Both of these factors affected the price. In early 2021, the situation is reversed: gas inventories are significantly lower than the average for the last few years due to cold winter and the outflow of LNG towards Asia. The need to replenish the inventories will support the demand and the prices in the coming summer. Moreover, the recovery of the European economy is going to support the demand for energy in general. Therefore, the critical situation of

oversupply will not be repeated this year.

Gazprom's export policy has proven its efficiency even in very complex market conditions. In the second quarter of 2020, spot prices dropped to their historical minimums (below USD 40 per 1,000 cubic meters). The average price for Gazprom's portfolio in Europe was around USD 100 per 1,000 cubic meters. Overall for 2020, the average export price in the contracts of Gazprom Export exceeded the month-ahead TTF index, standing above USD 130 per 1,000 cubic meters.

Thus, Gazprom managed to pass the peak of last year's crisis with respectable financial results. We managed to achieve that thanks to our well-balanced portfolio of long-term export contracts.

Our Company has demonstrated resilience against major price fluctuations. More than half of our gas exports was linked to spot indices for a day or month ahead. At the same time, almost a third of them was linked to much longer forward quotations. Another 13 per cent of the gas sold was oil-indexed.

Gazprom is constantly adapting its contract model to the developments in the gas market. Our contract portfolio enables us to strike a balance between needing to sell gas at competitive market prices and striving to curb our dependence on market volatility. Thus, we maintain our positions in the market.

Our Electronic Trading Platform continued its development last year, proving to be an important and flexible tool. It allowed us to increase our gas sales and utilization of our transportation capacities. In addition, it helped stabilize the European gas market. Amid the declining spot prices, we promptly reoriented the ETP to trade in products with longer supply periods. This relieved the pressure on spot prices. Our sales via the ETP increased by 12 billion cubic meters in 2020 against 2019. They exceeded 27 billion cubic meters, which includes supplies for the future periods.

Also last year, we successfully implemented trading instruments with new types of pricing and supply periods. This allowed us to sell seasonal products and gas with deliveries in 2021 and 2022. We also entered new markets: namely, we sold our first volumes to Turkey.

Our Company is successfully diversifying its gas pipeline routes to Europe. This allows us to reduce not only the risks and costs of transit, but also greenhouse gas emissions.

Despite the strong sanctions pressure, the construction of the Nord Stream 2 gas pipeline continues. In mid-December 2020, the pipelaying operations were resumed. The completion date for the entire offshore section depends on a number of factors: weather conditions, the timing of the works, and so on. All works are being performed in full compliance with the permits obtained.

On top of that, in early 2020, we commissioned the TurkStream gas pipeline, which is successfully operating right now. It reliably supplies Russian gas across the Black Sea to Turkey and as many as six European states: Bulgaria, Greece, North Macedonia, Romania, Serbia, and Bosnia and Herzegovina. After the national operators in Bulgaria, Serbia, and Hungary expand their gas transmission systems in the autumn of 2021, we can expect Hungary to start receiving gas supplies via the new route. The capacity utilization of TurkStream will increase accordingly.

Gazprom is also systematically expanding and diversifying gas supply routes towards China. In 2020, despite the pandemic-related restrictions, China's gas demand continued to grow. According to preliminary estimates, Chinese gas consumption amounted to approximately 325 billion cubic meters, which is 6 per cent higher than in 2019.

We are ramping up our supplies via the Power of Siberia gas pipeline. In 2020, the pipeline transmitted 4.1 billion cubic meters of gas. During the cold winter in the fourth quarter of 2020, as requested by China, the actual supplies exceeded the contractual obligations of Gazprom. In 2021, the supply volumes kept increasing in line with the supply growth schedule envisaged in the Sales and Purchase Agreement.

By 2030, we expect China's gas demand to grow substantially – by more than 50 per cent against the 2020 level. The key drivers are as follows:

- proactive government policy to replace coal with gas,
- governmental incentives to increase the share of gas in the national energy mix,
- favorable macroeconomic factors, including the growth rates of the Chinese economy.

Gazprom is poised to become one of the key beneficiaries of rising gas demand in China. We will increase supplies via the Power of Siberia gas trunkline. This will also stimulate the development of other gas transportation projects in the region.

Gazprom keeps working to finalize negotiations on gas supplies under the previously signed agreements.

We are also working on a new project to supply Russian gas to China across Mongolia. In December 2019, we signed a Memorandum of Understanding with the Government of Mongolia. It provides for a joint feasibility assessment regarding the implementation of the project.

In August 2020, we also signed a Memorandum of Intent with the Mongolian Government to set up a special-purpose vehicle. The purpose of the SPV is to conduct a feasibility study regarding the project for the construction and operation of the Soyuz Vostok gas trunkline in Mongolia. In early 2021, a special-purpose vehicle named Gazprovod Soyuz Vostok was registered in Mongolia. The company has commenced the study. On March 10 and 11, 2021, specialists made a flight along the proposed route of the gas pipeline in Mongolian territory.

A crucial element for us in diversifying sales markets and expanding gas supply methods is LNG business. The Gazprom Group's positions in the LNG market are relatively modest compared to our pipeline supplies. Nevertheless, 2020 became a breakthrough year for our LNG trading efforts. We doubled not only the volume of sales from our LNG portfolio (to 7.4 million tons) but also the number of our destination countries (to 14).

These numbers were achieved thanks to a significant increase in trading operations across the spot and short-term markets. Another positive factor was the levelling off of LNG supplies under the long-term contracts of the Gazprom Group. In addition, 2020 saw Gazprom Export launch its new operating LNG center in St. Petersburg. The center is working in close conjunction with the existing offices in London and Singapore. Its purpose is to reinforce the presence of the Gazprom Group in the global LNG market and to get a foothold for new LNG projects in Russia. The key project in this regard is the complex for processing ethane-containing gas and LNG production in the Leningrad Region.

Our Company continues running projects to develop the LNG bunkering market in Russia. In December 2020, Russia's first LNG bunkering vessel was successfully launched. The vessel, named Dmitry Mendeleev, is expected to be put in operation in 2021.

LNG projects open up new possibilities for supplying a fundamentally new product, namely carbon-neutral LNG, to the market. Recently, on March 8, 2021, the first deal of this kind was executed jointly with Shell: an LNG shipment was delivered to the buyer. CO₂ emissions across the whole chain of LNG production, transportation and consumption were offset with dedicated certificates. We see huge potential in this area to meet the demand from buyers who share our desire to protect the environment to the maximum extent possible.

Dear colleagues,

The global gas market has undergone substantial changes. Nevertheless, Gazprom's positions as an exporter have remained strong. We are optimistic about the prospects of our gas in the European market. The declining indigenous production in the EU is going to support the growing demand for imported gas. Discontinued coal-fired and nuclear power generation, expanding electrification, and increased capacities of renewables – all these factors will serve to raise the demand for gas as a guarantee of stability for energy systems.

Gas is fully compatible with the most ambitious of climate goals. In a rational and reliable energy system, it will retain its key role as, among other things, the basis for hydrogen production. Gazprom is currently developing solutions in this area.

Thank you for your attention.